

AR58

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

TransAlta Utilities Corporation

***1997* ANNUAL REPORT**

TransAlta

TransAlta Utilities Corporation (TransAlta Utilities) owns and operates electricity generation, transmission and distribution assets supplying more than two-thirds of the total electric energy needs of the province of Alberta, Canada. TransAlta Utilities owns net generating capacity of approximately 4,500 megawatts — 95 per cent of production is thermal (coal) based and the remainder is provided by hydroelectric facilities — and more than 100,000 kilometres of transmission and distribution lines. TransAlta Utilities has served Albertans since 1911. Rates charged by TransAlta Utilities are subject to regulatory approval under the terms of Alberta's Electric Utilities Act. TransAlta Utilities is a wholly-owned subsidiary of TransAlta Corporation.

CONTENTS

2	Management Discussion and Analysis
7	Consolidated Financial Statements
21	Corporate Advisory Boards
22	Corporate Information
24	Shareholder Information

Shareholders' Meeting

Shareholders are invited to attend the Annual Meeting at 10 a.m. on Friday, May 15, 1998 at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta.

Management's DISCUSSION AND ANALYSIS

Comparable net earnings up 2.1 per cent, after adjusting for one-time items

Net earnings applicable to common shares were \$140.9 million (\$0.88 per share) compared to \$188.3 million (\$1.18 per share) in 1996. Comparable net earnings, after adjusting for one-time items, rose to \$166.3 million (\$1.04 per share) in 1997 from \$162.9 million (\$1.02 per share) a year earlier.

The increase in comparable net earnings was driven by higher sales in the retail sector (industrial, commercial, farm and residential) — 22,343 million kilowatt-hours in 1997 compared to 21,601 million kilowatt-hours in the previous year.

As noted in the following regulatory issues section, the impact of the 1996 Alberta Energy and Utilities Board (EUB) decision on 1996 results has been reflected in 1997 as a one-time item. The following table adjusts TransAlta Utilities' financial results for 1996 incorporating the effect of the EUB decision.

TransAlta Utilities - 1996 EUB decision analysis

<i>(in millions, except net earnings per common share)</i>	<i>1996 as Reported</i>	<i>EUB Decision</i>	<i>1996 Adjusted</i>	<i>1997 Adjusted*</i>
Revenues	\$ 1,196.5	\$ (76.8)	\$ 1,119.7	\$ 1,129.2
Depreciation	233.8	22.8	211.0	217.9
Operating expenses	417.2	1.5	415.7	422.2
Net operating income	545.5	(52.5)	493.0	489.1
Interest charges	131.6	1.2	130.4	133.7
Income before tax	413.9	(51.3)	362.6	355.4
Income tax	199.7	25.9	173.8	167.8
Net income	214.2	(25.4)	188.8	187.6
Preferred share dividend	25.9	—	25.9	21.3
Net earnings applicable to common shares	\$ 188.3	\$ (25.4)	\$ 162.9	\$ 166.3
Net earnings per common share	\$ 1.18	\$ (0.16)	\$ 1.02	\$ 1.04

*Adjusted to eliminate the one-time item (\$51.3 million) relating to the 1996 rates decision, and applicable income tax (\$25.9 million).

Regulatory issues

Under the Electric Utilities Act, essentially all electric utility customers in Alberta pay the averaged costs of all utility generation and transmission in Alberta. Distribution costs are not averaged. As a result, lower TransAlta Utilities costs of about \$150 million are not passed on to customers directly served by TransAlta Utilities but rather are used to partially offset higher costs of other generators of electricity.

The EUB's regulatory decision affecting rates for 1996 and 1997 was received on Oct. 31, 1997. The 1996 rates were determined by the EUB, and served as a basis for a negotiated settlement among industry stakeholders for 1997 rates. Interim refundable rates approved by the EUB were used to calculate net earnings throughout 1996 and for the first three quarters of 1997.

The impact of the EUB's decisions on rates for both 1996 and 1997 was recorded in the fourth quarter of 1997. The net effect on 1996 was recorded as an unusual item of \$51.3 million before tax in 1997 (\$25.4 million after tax; \$0.16 per share). The 1997 pre-tax impact of \$88.1 million (\$46.8 million after tax; \$0.29 per share) is reflected in the current year's results.

It also should be noted that as a consequence of an application made by the Industrial Power Consumers Association of Alberta, the EUB ordered a review of TransAlta Utilities' rates for 1995. An EUB hearing with respect to TransAlta Utilities' 1995 rates was held on March 2 and 3, 1998. An EUB decision is pending. *For more information about regulatory decisions, refer to Note 7 to the Consolidated Financial Statements on page 17.*

The EUB historically has set rates on a prospective, or forecast basis. More recently, however, a significant lag in the regulatory process has resulted in rates being set retrospectively. The rate proceeding for 1996 rates began in November 1995, and a final decision was not rendered until Oct. 31, 1997 — 10 months after the test year under review ended. The delay had a significant impact on reported results for both 1996 and 1997. As previously mentioned, TransAlta's rates for 1995 were subject to a regulatory review on March 2 and 3, 1998 — 27 months after the test period ended. This type of regulatory lag is of growing concern for TransAlta Utilities since it affects the corporation's reported results, creates uncertainty for both its investors and customers, and makes planning extremely difficult. TransAlta Utilities believes that deregulation of existing generation and the utilization of incentive-based regulation for extended test periods are the most effective means of dealing with this issue.

Retail sales grow 3.4 per cent

Comparable net revenues were \$1,129.2 million in 1997, up from \$1,119.7 million in 1996 (\$1,196.5 million as reported, less \$76.8 million relating to the 1996 rate adjustment recorded in 1997). Total sales (retail and wholesale) increased to 28,463 million kilowatt-hours from 27,844 million kilowatt-hours in 1996. Stronger retail sales in 1997 reflect increased activity in the oil and gas sector, combined with expansions in gas processing and pipelines.

TransAlta Utilities' 10 largest customers — all from the industrial customer category — represented about 27 per cent of TransAlta Utilities' revenue from direct customers in 1997. About 53 per cent of TransAlta Utilities' revenue from direct customers is received from the oil and gas, petrochemical and forestry sectors.

Operating results

Operating income declined in 1997 to \$489.1 million from \$545.4 million in 1996, primarily due to the 1996 regulatory decision. However, after adjusting the 1996 reported results for the effects of the 1996 rates decision, comparable operating income decreased by \$3.9 million or less than one per cent.

The decrease in comparable operating income is a result of increased revenues of \$9.5 million, which was offset by an increase in operating expenses of \$6.5 million and depreciation expense of \$6.9 million. Operating expenses were higher due to increased production activity and the cost of fuel. Depreciation expense increases were related to property additions.

Comparable interest charges rose to \$133.7 million in 1997 from \$130.4 million in 1996. Interest charges are presented net of the allowance for funds used during construction of \$3.6 million in 1997 and \$4.2 million in 1996.

Income taxes decreased to \$141.9 million in 1997 from \$199.7 million the prior year as a result of the decline in earnings before income taxes, which was primarily due to the impact of the 1996 rate adjustment (\$25.9 million) recorded in 1997.

Preferred share dividend requirements were lower — \$21.3 million in 1997 compared to \$25.9 million the previous year — due to the retraction and redemption of preferred shares in 1996.

LIQUIDITY AND CAPITAL RESOURCES

TransAlta Utilities' 1997 capital expenditures on property were \$193.1 million compared to \$203.7 million in 1996.

Capital expenditures were funded by internally generated funds. TransAlta Utilities' 1998 capital expenditures are expected to be about \$230 million. These expenditures will be financed through internally generated funds.

In 1997, TransAlta Utilities issued \$165 million of Series A Secured Debentures with a 6.1 per cent average yield and a 10-year term.

Credit rating

TransAlta Utilities is rated by the Dominion Bond Rating Service (DBRS) and the Canadian Bond Rating Service (CBRS). In December 1997, DBRS adjusted the rating on TransAlta Utilities' long-term debt from "AA" to "AA (low)." In January 1998, CBRS reaffirmed TransAlta Utilities' AA rating but with a negative outlook. Both rating agencies cited the uncertainty associated with industry restructuring and concerns about the existing regulatory environment in Alberta as reasons for the adjustments in the company's credit rating. TransAlta Utilities continues to enjoy one of the highest corporate credit standings in Canada.

MANAGEMENT DISCUSSION

Alberta outlook

The Alberta economy is expected to achieve a GDP growth rate of between three and four per cent in 1998. Although energy and agriculture traditionally have dominated Alberta's economy, a good portion of the growth in 1998 is expected to come from other sectors like telecommunications, food processing, value-added manufacturing, advanced technology and tourism. However, many of the growth industries, especially energy, depend on low-cost electricity to be competitive. Continuing uncertainty about electric industry deregulation could erode Alberta's competitive advantages.

TransAlta Utilities continues to support electricity deregulation initiatives in Alberta, founded primarily on the belief that marketplace forces should prevail where regulation is unnecessary. The electric utility industry has evolved to a point where power generation can be provided most efficiently by a competitive marketplace. At the same time, electricity consumers will achieve the benefits of choice of supplier that a retail marketplace provides.

The government of Alberta has stated its intention to introduce legislation that will develop a framework for encouraging new generation, choice for consumers and lower prices. The language and details attached to such legislation still are unknown and, once introduced, it will take a further several months for specific regulations to be agreed upon. There are some risks attached to this uncertainty but TransAlta Utilities is confident that potential issues will be resolved in the ensuing discussions. TransAlta Utilities does not see major financial risks attached to this process.

Demand/supply

The demand/supply balance for generation in Alberta has tightened, as has been expected. The gap between supply and demand is expected to continue to close in 1998 and 1999, as Alberta's economy strengthens. TransAlta Utilities continues to operate at high capacity levels and has some limitations on additional output from regulated utility operations. Growth will come from non-regulated generation being added to the market. TransAlta Utilities continues to pursue new opportunities in this area.

Managing weather-related business risk

In early 1998, severe ice storms cut off electricity for weeks to millions of residents in Quebec and Ontario. The nature of the ice storm was particularly severe and widespread. This type of storm is an ongoing risk for utilities. It is doubtful that electric transmission and distribution systems anywhere could withstand such severe weather. TransAlta Utilities has experienced storms that resulted in widespread network damage. The most recent was in the spring of 1986, when TransAlta Utilities crews worked around the clock to restore power to all affected customers in just over a week. TransAlta Utilities has emergency response plans in place to respond to severe weather.

Greenhouse gas emissions

In December 1997, Canada agreed to tough new targets to reduce emissions of greenhouse gases by six per cent from 1990 levels by 2008 to 2012. Canada's earlier target had been stabilization of such emissions at 1990 levels by the year 2000. TransAlta Utilities is a significant emitter of carbon dioxide, a greenhouse gas, and has been an active participant in the federal government's Voluntary Challenge and Registry program. Under that program, TransAlta Utilities has initiatives in place to reduce net emissions of greenhouse gases to below 1990 levels by the year 2000. An important component is offset projects that, through cost-effective actions taken at third-party sites, reduce TransAlta Utilities' greenhouse gas emissions on a net basis. Because of the magnitude of the December 1997 commitment made by Canada, TransAlta Utilities believes offsets will need to be a significant component of any national response. TransAlta Utilities is working at the provincial and federal government level to provide input to policy development discussions.

Year 2000: Managing the issue

The Year 2000 (Y2K) issue exists where information technology, computers and digital devices are used. The problem stems from the fact that many computer programs use two-digit date coding and will not properly recognize the year 2000. The issue has the potential to cause widespread disruption not only to information systems but also business operations. The situation is complex because many systems and controls are interdependent, including computer-supported systems used in vital areas of the business involving the generation, transmission and distribution of electricity. The Y2K problem also has the potential to affect the exchange of computer information with TransAlta Utilities' suppliers, customers and business partners. TransAlta Utilities' target is to minimize the consequences but there is no guarantee the risk can be eliminated entirely.

In 1996, TransAlta Utilities upgraded its core information systems, including implementing a Y2K-compliant SAP system. In May 1997, TransAlta Utilities launched an extensive project to identify Y2K-related problems. The goal of this project is to manage operating risks associated with Y2K while continuing to provide cost-effective energy services. TransAlta Utilities' project includes modifying customer billing software to accept Year 2000 data, and where possible, using simulations to test and monitor how information systems and other devices react to Y2K.

In 1997, TransAlta Utilities participated in industry workshops to share information about new testing processes. TransAlta Utilities also has retained IBM to provide consulting expertise to develop, implement and monitor a comprehensive, step-by-step plan to deal with the Y2K issue.

In addition, TransAlta Utilities is seeking confirmation from its suppliers, clients and partners that they are addressing their Y2K problems in a way that TransAlta Utilities' operations will not be affected. TransAlta Utilities has joined forces with some of its larger customers, other utilities and industry organizations, such as the Electric Power Research Institute, to share information and resources for developing solutions effectively and efficiently. TransAlta Utilities concurrently is devising a contingency plan in the event that Y2K failures occur.

To date, TransAlta Corporation, the parent company, has incurred expenses related to the Y2K problem of about \$1 million. The total cost of this initiative is estimated to be between \$20 million and \$30 million, some of which will be capitalized and some recorded as current year operating costs.

MANAGEMENT'S REPORT

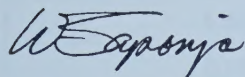
Management Responsibility

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 12, 1998. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

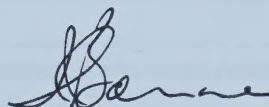
To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The audit committee of the board of directors is comprised of independent directors. The audit committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The audit committee reports its findings to the board of directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The audit committee also recommends, for review by the board of directors and approval of shareholders, the appointment of the external auditors. The internal and external auditors have full and free access to the audit committee.



Walter Saponja
President & Chief Operating Officer



Ian A. Bourne
Senior Vice-President & Chief Financial Officer

February 12, 1998

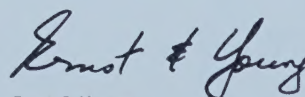
AUDITORS' REPORT

To the Shareholders of TransAlta Utilities Corporation:

We have audited the consolidated balance sheets of TransAlta Utilities Corporation as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Ernst & Young
Chartered Accountants

Calgary, Canada
February 12, 1998

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(in millions except net earnings per common share)	Years ended December 31	
	1997	1996
Revenues (Note 7)	\$ 1,161.4	\$ 1,226.1
Less: Alberta Small Power Research and Development Act charge (Note 10)	32.2	29.6
	1,129.2	1,196.5
Operating deductions		
Operating expenses	270.5	266.5
Depreciation (Note 2)	217.9	233.8
Fuel	108.0	106.1
Taxes, other than income taxes	43.7	44.6
	640.1	651.0
Operating income	489.1	545.5
Interest charges		
Long-term debt (Note 2)	128.6	131.1
Short-term debt	5.1	0.5
	133.7	131.6
Earnings before rate adjustment and income taxes	355.4	413.9
Rate adjustment (Note 7)	51.3	—
Earnings before income taxes	304.1	413.9
Income taxes (Note 8)	141.9	199.7
Net earnings	162.2	214.2
Preferred share dividends	21.3	25.9
Net earnings applicable to common shares	140.9	188.3
Common share dividends	297.0	188.3
	(156.1)	—
Retained earnings		
Opening balance	402.1	402.1
Closing balance	\$ 246.0	\$ 402.1
Net earnings per common share		
Average common shares outstanding	159.7	159.2
Net earnings per common share	\$ 0.88	\$ 1.18

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

	December 31	
(in millions)	1997	1996
ASSETS		
Current assets		
Cash and short-term investments	\$ —	\$ 9.9
Accounts receivable	211.9	167.4
Materials and supplies at average cost	48.9	47.3
	260.8	224.6
Property (Notes 2 & 4)		
Land, buildings, plant and equipment	5,729.2	5,616.4
Less: accumulated depreciation	2,619.9	2,493.7
	3,109.3	3,122.7
Deferred costs (Note 3)	13.5	15.2
Total assets	\$ 3,383.6	\$ 3,362.5
Future costs for small power producers' contracts (Note 10)	\$ 573.3	\$ 603.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loan and short-term notes of a subsidiary	\$ 41.6	\$ 83.4
Accounts payable and accrued liabilities	384.2	185.2
Dividends payable - common shares	39.2	39.0
- preferred shares	5.4	5.4
Current portion of long-term debt (Note 4)	205.4	172.3
	675.8	485.3
Long-term debt (Note 4)	1,190.3	1,229.0
Deferred income taxes	56.5	34.7
Preferred shares (Note 5)	267.6	270.5
Common shareholder's equity		
Common shares (Note 6)	930.1	923.6
Contributed surplus	17.3	17.3
Retained earnings	246.0	402.1
	1,193.4	1,343.0
Total liabilities and shareholders' equity	\$ 3,383.6	\$ 3,362.5
Obligations for small power producers' contracts (Note 10)	\$ 573.3	\$ 603.8

On behalf of the board:



Richard F. Haskayne
Director



J. Wallace Madill
Director

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years ended December 31	
(in millions)	1997	1996
Operating activities		
Net earnings applicable to common shares	\$ 140.9	\$ 188.3
Operating items not using cash	237.6	231.0
	378.5	419.3
Change in non-cash working capital balances (Note 11)	144.5	46.1
Common share dividends	(297.0)	(188.3)
	226.0	277.1
Investing activities		
Additions to property	(193.1)	(203.7)
Less: allowance for equity funds used during construction	2.1	2.6
	(191.0)	(201.1)
Financing activities		
Proceeds from issue of common shares	6.5	7.8
Issue of long-term debt	165.4	50.4
Repayment of long-term debt	(170.9)	(92.1)
Redemption or purchase of preferred shares, included in long-term debt	—	(99.0)
Redemption or purchase of preferred shares	(2.9)	(2.4)
Increase (decrease) in bank loan and short-term notes	(41.7)	29.2
Other	(1.3)	2.7
	(44.9)	(103.4)
Decrease in cash and short-term investments	(9.9)	(27.4)
Cash and short-term investments at beginning of year	9.9	37.3
Cash and short-term investments at end of year	\$ —	\$ 9.9

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts in millions, except as otherwise noted)

1. SUMMARY OF ACCOUNTING POLICIES

a) Consolidation and investments

The consolidated financial statements include the accounts of TransAlta Utilities Corporation ("TransAlta Utilities" or "the corporation") and its wholly-owned subsidiaries, of which TransAlta Fly Ash Corporation, Kanelk Transmission Company Limited and Farm Electric Services Ltd. are active. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

The corporation owns and operates electric generation, transmission and distribution facilities in the province of Alberta. TransAlta Fly Ash Corporation processes and sells fly ash gathered at the corporation's coal-fired generating plants. Kanelk Transmission Company Limited owns facilities interconnecting the corporation's transmission system between the Crowsnest Pass region and the Kananaskis river valley and in doing so passes through a portion of British Columbia. Farm Electric Services Ltd. is a non-profit entity that organizes, constructs, operates and maintains, at cost, electric distribution systems owned by rural electrification co-operative associations.

The corporation is a wholly-owned subsidiary of TransAlta Corporation.

b) Regulation

The corporation is regulated by the Alberta Energy and Utilities Board ("EUB"), pursuant to the Hydro and Electric Energy Act (Alberta); pursuant to Part 2 of the Public Utilities Board Act (Alberta); pursuant to the Electric Utilities Act (Alberta); and is subject to the Provincial Water Power Regulations (Alberta). These acts and regulations cover such matters as tariffs, rates, construction, operations, financing and accounting.

c) Property

Land, buildings, plant and equipment are carried at cost. TransAlta Utilities provides for depreciation on a straight-line basis using various rates as approved by the EUB, based on depreciation studies prepared by TransAlta Utilities. Changes to depreciation rates requested by the EUB are accounted for on a prospective basis. Depreciation rates reflect estimated service lives and estimated future removal costs less salvage values. Estimated costs to reclaim mining properties are recorded as operating expenses primarily on a unit-of-production basis.

d) Allowance for funds used during construction

The corporation capitalizes an allowance for funds used during construction at the cost of capital including the cost of equity related to property under construction. This amount is a non-cash item of income that will be charged and recovered in rates to customers over the service life of the assets, commencing with their inclusion in rate base. Interest expense on long-term debt is presented net of the allowance for funds used during construction.

e) Deferred costs

Financing costs are amortized to earnings as follows:

Debt issues: straight-line over the remaining term of the related debt issue.

Preferred share issues: straight-line over the estimated average life of the issue.

f) Customer contributions

Customer contributions to the corporation for new service connections are recorded as a reduction to the cost of property and are amortized to earnings at a composite rate of approximately three per cent per annum.

g) Income taxes

The EUB has prescribed that, for rate setting purposes, the taxes payable method be used for provincial income taxes and, beginning in 1997, the tax allocation method be used for federal income taxes. There is reasonable expectation that when unrecorded deferred income taxes become payable they will be included in the rates approved by the EUB and recovered from customers at that time.

h) Translation of foreign currency

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. The resulting exchange gains and losses on these items are included in the determination of earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining life of the debt. This method is in accordance with the method used in determining the cost of capital for regulatory purposes.

i) Post retirement benefits

Post retirement costs and obligations for the basic pension, the supplementary pension plan and post retirement benefits other than pensions are actuarially determined using the projected benefit method prorated on service. The estimated market value of the basic pension plan fund assets is actuarially determined based on a five-year moving average.

Experience gains and losses, and amounts arising as a result of changes in accounting methods, assumptions and plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employee group.

j) Financial instruments

The estimated fair value of long-term debt is based on quoted market prices where available, or where not available, with reference to market prices for similar issues. The carrying amounts of current financial assets and current financial liabilities approximate their fair values due to the short period to maturity.

2. PROPERTY

	<i>Depreciation Rates</i>	<i>December 31</i>			
		<i>1997</i>		<i>1996</i>	
		<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>
Hydro production	2.81%	\$ 295.6	\$ 144.7	\$ 288.4	\$ 135.5
Thermal production including coal mines	3.13% - 3.92%	2,377.6	947.5	2,327.8	901.9
Environmental control	3.56%	425.6	204.2	422.2	190.5
Transmission lines, substations and distribution systems	3.24% - 7.18%	2,625.1	1,357.9	2,516.3	1,273.0
Other	Various	316.2	86.5	340.1	103.4
Property under construction	None	37.1	—	42.2	—
Customer contributions	3%	(348.0)	(120.9)	(320.6)	(110.6)
		\$5,729.2	\$2,619.9	\$5,616.4	\$2,493.7

In 1997, the EUB requested a change in the corporation's depreciation rates. The change in rates related to 1996 decreased depreciation expense by \$22.8 million and is included in the rate adjustment (Note 7). The change in rates related to 1997 decreased depreciation expense by \$19.6 million.

The corporation capitalized an allowance for funds used during construction of \$3.6 million (\$4.2 million in 1996) at a rate of 9.8 per cent (10.4 per cent in 1996) on property under construction.

3. DEFERRED COSTS

	<i>December 31</i>	
	<i>1997</i>	<i>1996</i>
Financing costs	\$ 9.2	\$ 8.9
Other	4.3	6.3
	\$ 13.5	\$ 15.2

4. LONG-TERM DEBT

	Maturity Date	1997		December 31 1996	
		Outstanding	Weighted Average Interest Rate	Outstanding	Weighted Average Interest Rate
First mortgage bonds (US \$10.0 million in 1997, US \$12.5 million in 1996)	2002	\$ 14.3	8.5%	\$ 17.1	8.5%
Debentures	1998 to 2008	1,324.0	8.9%	1,326.8	9.4%
Notes payable	2002	40.0	4.9%	40.0	7.2%
Other	2005 to 2006	17.4	9.0%	17.4	9.0%
		1,395.7		1,401.3	
Less: current portion		205.4		172.3	
		\$1,190.3		\$ 1,229.0	

First mortgage bonds

A first charge on certain of the TransAlta Utilities land, buildings, plant and equipment and a first floating charge on all other utility assets situated in the Province of Alberta have been pledged as security. TransAlta Utilities has closed the Trust Deed and will not issue additional first mortgage bonds.

Debentures

A floating charge on the property and assets of TransAlta Utilities subject to the first specific charge and the first floating charge securing the first mortgage bonds has been pledged as security. In 1997, \$165.0 million Series A Secured Debentures with an average interest rate of 6.1 per cent were issued for cash. In 1996, \$50.0 million Series A Secured Debentures with an average interest rate of 6.9 per cent were issued for cash. In 1997, \$167.8 million Series A Secured Debentures with an average interest rate of 10.2 per cent (\$60.0 million Series A Secured Debentures with an average interest rate of 8.1 per cent in 1996) were redeemed for cash.

Notes payable

The notes payable are unsecured and have no authorized limit. These amounts are payable to rural electrification co-operative associations through their agent, Farm Electric Services Ltd., and represent a portion of funds contributed by members of these associations.

Long-term debt principal amounts, excluding current portion, are due in the following years:

1999	\$ 109.9
2000	213.3
2001	89.1
2002	106.8
Thereafter	671.2
	\$ 1,190.3

5. PREFERRED SHARES

a) Authorized

The authorized preferred share capital is issuable in series and consists of an unlimited number of voting First and Second Preferred Shares, all without nominal or par value.

b) Issued and outstanding - First Preferred Shares

The First Preferred Shares, which are issuable in series, are cumulative and redeemable at designated dates at the option of the corporation at their subscription price together with a premium not in excess of the annual dividend. Certain series have annual purchase funds that are non-cumulative but require the corporation to make all reasonable efforts to purchase for cancellation, in the open market, preferred shares at a price not exceeding their subscription price plus any accrued and unpaid dividends.

	Subscription Price	December 31			
		1997		1996	
		Shares	Amount	Shares	Amount
4.00% Series	\$100	13,707	\$ 1.4	13,709	\$ 1.4
4.50% Series	\$100	6,695	0.7	6,924	0.7
5.00% Series	\$100	6,832	0.7	6,847	0.7
5.40% Series	\$100	18	—	18	—
7.00% Series	\$100	70,329	7.0	70,329	7.0
7.08% Series	\$25	715,659	17.8	715,659	17.8
7.10% Series	\$25	524,002	13.1	524,002	13.1
7.20% Series	\$25	606,999	15.2	606,999	15.2
7.30% Series	\$100	168,792	16.9	180,792	18.1
7.44% Series (1977)	\$100	115,006	11.5	120,800	12.0
7.44% Series (1979)	\$100	115,864	11.6	120,364	12.0
7.50% Series	\$100	153,429	15.3	153,429	15.3
7.70% Series	\$100	110,950	11.1	118,750	11.9
8.40% Series	\$25	5,842,787	145.3	5,842,787	145.3
		8,451,069	\$ 267.6	8,481,409	\$ 270.5

Number of votes ⁽¹⁾

2,573,033

2,595,574

⁽¹⁾ All preferred shares carry one vote per share except the 7.08%, 7.10%, 7.20% and 8.40% series, which are entitled to one vote for each full \$100 of subscription price and the 7.70% series, which are non-voting unless the corporation fails to pay certain dividends.

c) Redemption privileges

All preferred shares have a nil redemption premium except the 4.00% and 4.50% series, which have a three per cent premium and the 7.00% and 7.50%, which have a two per cent premium.

d) Purchase obligations

		<i>1997 Share Purchase Obligations</i>		<i>Purchased in 1997</i>	
		<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
4.00% Series	(Voluntary)		\$ —	2	\$ —
4.50% Series	(Voluntary)			229	
5.00% Series	(Voluntary)			15	
7.00% Series		3,000	0.3		
7.08% Series		21,638	0.5		
7.10% Series		15,771	0.4		
7.20% Series		18,395	0.5	12,000	1.2
7.30% Series		12,000	1.2	5,794	0.5
7.44% Series (1977)		9,000	0.9	4,500	0.4
7.44% Series (1979)		9,000	0.9		
7.50% Series		5,000	0.5		
7.70% Series		7,800	0.8	7,800	0.8
8.40% Series		175,284	4.4		
		276,888	\$ 10.4	30,340	\$ 2.9

An annual purchase fund may be required for up to \$10.4 million stated capital in each year from 1998 to 1999 and \$6.0 million thereafter.

6. COMMON SHARES

The corporation is authorized to issue an unlimited number of voting common shares without nominal or par value.

	<i>1997</i>		<i>December 31 1996</i>	
	<i>Common Shares (millions)</i>	<i>Amount</i>	<i>Common Shares (millions)</i>	<i>Amount</i>
Issued and outstanding at beginning of year	159.5	\$ 923.6	158.9	\$ 915.8
Issued for cash	0.5	6.5	0.6	7.8
Issued and outstanding at end of year	160.0	\$ 930.1	159.5	\$ 923.6

7. RATE ADJUSTMENT

In 1996 and until November 1997, regulated electric revenues were collected under tariffs approved by the EUB in December 1995 on an interim refundable basis. During the period July through October 1996, TransAlta Utilities' interim 1996 tariffs were the subject of a public hearing before the EUB. The EUB released its decision regarding the 1996 general rate application on October 31, 1997. The financial impact on net earnings was recorded in the fourth quarter of 1997. The rate adjustment relating to 1996 is presented as an unusual item that reduced 1997 earnings before tax by \$51.3 million and net earnings by \$25.4 million or \$0.16 per common share. The associated customer refunds have been recorded as an accrued liability.

As a consequence of an application made by the Industrial Power Consumers Association of Alberta on December 14, 1995, the EUB ordered a review of TransAlta Utilities' rates for 1995. An application to the EUB to review and vary that order and an application to the Court of Appeal for leave to appeal that order were both denied during 1997. A proceeding with respect to 1995 is scheduled by the EUB for March 1998.

8. INCOME TAXES

Income taxes vary from the amount that would be determined by applying the combined statutory Canadian federal and Alberta income tax rates to pre-tax earnings, as follows:

	Years ended December 31	
	1997	1996
Statutory income tax rates	44.62%	44.62%
Earnings before income taxes	\$ 304.1	\$ 413.9
Computed taxes on income	\$ 135.7	\$ 184.7
Increase (decrease) in taxes resulting from:		
Resource allowance	(5.3)	(5.6)
Royalties	2.6	2.4
Non-taxable allowance for funds used during construction	5.7	5.5
Provincial timing differences for which no deferred tax is provided	(1.7)	7.1
Large corporations tax	4.5	3.6
Part VI.1 tax	—	2.5
Other	0.4	(0.5)
	\$ 141.9	\$ 199.7
Current	\$ 120.2	\$ 199.7
Deferred	21.7	—
	\$ 141.9	\$ 199.7

As at December 31, 1997, deferred federal income taxes of \$58.8 million and deferred provincial income taxes of \$17.3 million have not been recorded.

9. POST RETIREMENT BENEFITS

TransAlta Corporation, the parent corporation, maintains the following post retirement benefit plans:

- i) a defined benefit retirement option that covers substantially all employees of the corporation and its subsidiaries;
- ii) a defined contribution retirement option available to all employees of the corporation and its subsidiaries;
- iii) an unfunded supplemental retirement pension plan; and,
- iv) post retirement benefits other than pensions (supplementary health and dental benefits) covering all retirees of the corporation and its domestic subsidiaries under the age of 65 and their eligible dependents.

At December 31, 1997, the estimated market value of defined benefit pension fund assets for actuarial purposes was \$296.1 million (\$353.9 million in 1996) and the actuarial value of accrued defined benefit pension obligations was \$246.6 million (\$342.4 million in 1996).

At December 31, the actuarial value of the unfunded obligations of the supplemental retirement pension plan and post retirement benefits other than pensions were as follows:

	<i>December 31</i>	
	<i>1997</i>	<i>1996</i>
Supplemental retirement pension plan	\$ 22.6	\$ 16.8
Post retirement benefits other than pensions	\$ 15.9	\$ 14.7

10. SMALL POWER PRODUCERS' CONTRACTS

The Alberta Small Power Research and Development Act ("the Act") requires TransAlta Utilities to enter into long-term power purchase contracts with eligible small power producers at legislated prices. TransAlta Utilities has entered into contracts for 108 megawatts of capacity. Payments under the contracts are included in rates charged to customers. Under the Act, effective January 1, 1995, TransAlta Utilities is required to compensate the producers for their income tax paid to a maximum of 15 per cent of their power revenues.

During 1997, 98 megawatts (98 megawatts in 1996) of small power capacity delivered power to TransAlta Utilities. At December 31, 1997, future undiscounted minimum payments under these contracts are as follows:

1998	\$	32.5
1999		33.0
2000		33.5
2001		34.1
2002		34.6
2003 to 2017		405.6
	\$	573.3

At December 31, 1997, an additional 10 megawatts of capacity are forecast to commence delivery in 1998. Future undiscounted minimum payments under this contract are estimated to be approximately \$120 million.

TransAlta Utilities must purchase the power under long-term contracts at a price not less than 5.66¢/kWh (5.53¢/kWh in 1996), which is in excess of the average hourly pool price of about 2.0¢/kWh (1.4¢/kWh in 1996).

The small power producer contract costs are passed on to customers through rates approved by the EUB, with the expectation that such costs will continue to be recoverable in future years.

The estimated future costs and obligations for small power producers' contracts are presented separately in the corporation's consolidated balance sheets for information purposes and do not form part of the corporation's assets and liabilities.

11. CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	December 31	
	1997	1996
Accounts receivable	\$ (44.5)	\$ 35.9
Materials and supplies at average cost	(1.6)	—
Accounts payable and accrued liabilities	188.7	—
- rate adjustment		
- other	10.3	12.4
Dividends payable	0.2	0.1
- common shares		
- preferred shares	—	(2.0)
Less changes relating to investing activities	(8.6)	(0.3)
	\$ 144.5	\$ 46.1

12. FINANCIAL INSTRUMENTS

a) Credit risk

At December 31, 1997, approximately 26 per cent of accounts receivable were due from the oil and gas sector. Historically, credit losses from this sector have been negligible and management does not expect this to change.

b) Fair value of financial instruments

	December 31			
	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 1,395.7	\$ 1,513.2	\$ 1,401.3	\$ 1,551.0

13. RELATED PARTY TRANSACTIONS

As at December 31, 1997, accounts payable includes \$1.5 million (1996 - \$nil) payable to TransAlta Energy Corporation.

At December 31, 1996, included in bank loan and short-term notes is a promissory note of \$36.2 million due to TransAlta Energy Corporation, a wholly-owned subsidiary of TransAlta Corporation.

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year presentation.

Corporate ADVISORY BOARDS

TransAlta Utilities' Northern and Southern Alberta Advisory Boards provide forums for effective dialogue between TransAlta Utilities' management and business and community leaders. Through the boards, TransAlta Utilities gains a better understanding of customer needs in order to continually improve operations and enhance customer satisfaction.

Northern Alberta Advisory Board*

Ace Cetinski

Partner, Cetinski & Holtzman
Chartered Accountants
Sherwood Park, Alberta

Dianne Erickson

Owner, Chinook Pontiac Buick GMC Ltd.
Member, Hinton & District Chamber of Commerce
Hinton, Alberta

Dorothy Greenwood

Member, Aspen Regional Health Authority Board
Sangudo, Alberta

Denis Hinse

Owner, Hinse Poultry Farms
Director, Edmonton Strathcona Farmers Market Board & Edmonton City Farmers Market Board
Beaumont, Alberta

Arlene Reid

Owner, Reid Law Office
Vice-President, Drayton Valley & District Chamber of Commerce; Mayor, Summer Village of Poplar Bay
Drayton Valley, Alberta

Norm Rinas

President, Peace Hills Building Supplies
Member, Wetaskiwin Hospital Foundation
Wetaskiwin, Alberta

Joe Tomanek

Vice-President & Partner, Flynn Bros. Construction Inc.
Member, Fort Saskatchewan Chamber of Commerce
Fort Saskatchewan, Alberta

Howard Wilbur

Retired Operations Manager,
Consolidated Concrete
St. Albert, Alberta

Southern Alberta Advisory Board*

Stan Cowley

President, Rafter Six Ranch Resort
Seebe, Alberta

Wilton Goodstriker

President, Native Counselling Services of Alberta
Member of the Blood Tribe; Member of the National Parole Board
Cardston, Alberta

Lydia Graham

Mayor, Town of Cochrane
Member, Rockyview Foundation Board
Cochrane, Alberta

Sandi Kennedy

Realtor, Coldwell Banker
Director, Alberta Urban Municipalities Association
Okotoks, Alberta

Kathy Skocdopole

Partner, Skocdopole Farms Ltd.
Chair, Board of Governors, Olds College
Olds, Alberta

Lynn Thacker

President, PANOIL
Advisor, Western Canadian Wheat Growers Association
Bow Island, Alberta

Doug Thornton

Financial Planner
Member, Board of Directors Lethbridge Community College Foundation
Pincher Creek, Alberta

Cor VanRaay

Owner, VanRaay Farms
Director, Alberta Cattle Commission
Iron Springs, Alberta

Jim Webber

General Manager,
Eastern Irrigation District
Director, Alberta Canadian Water Resources Association
Brooks, Alberta

* As of January 1998

TransAlta Utilities' board of directors is comprised of experienced leaders representing varied backgrounds in finance, business and public service. On behalf of TransAlta Utilities' shareholders, the board of directors is responsible for the stewardship of the corporation, establishing overall policies and standards, and reviewing strategic plans. Eleven of the 13 board members are independent of management. The board has established two permanent committees for the continuous review of the principal risks to the corporation, and monitoring the systems for managing these risks. All committee members are independent of management.

Audit, environment and risk management committee

Members: J.T. Ferguson, L.D. Hyndman, D.S. Kaufman, J.W. Madill (committee chair) and R.A. Thrall Jr.

Nominating and corporate governance committee

Members: J.T. Ferguson (committee chair), C.H. Hantho, R.F. Haskayne, D.S. Kaufman and J.S. Lane.

Human Resources matters are reviewed by a committee established by the board of directors of the corporation's parent company, TransAlta Corporation, and is comprised as follows:

Human resources committee

Members: L.I. Bell, J.C. Donald, C. Hampson, C.H. Hantho (committee chair) and J.W. Madill.

TransAlta Utilities' corporate governance disclosure is included in the corporation's 1998 management proxy circular. TransAlta Corporation, the parent company of TransAlta Utilities Corporation, also has developed guidelines about significant corporate governance issues that are available upon request.

BOARD OF DIRECTORS

Lawrence I. Bell

Mr. Bell, a resident of Vancouver, B.C., has been a director of TransAlta since 1992. He is president and chief executive officer of Shato Holdings Ltd., and chairman of White Spot Limited.

Jack C. Donald

Mr. Donald, a resident of Red Deer, Alberta, has been a director of TransAlta since 1993. He is president and chief executive officer of Parkland Industries Ltd. and president of Parkland Properties Ltd. Mr. Donald is also vice-president and director of Brandt Industries Ltd., board chairman and director of the Canadian Western Bank and Canadian Western Trust, and a director of the Canadian Petroleum Products Institute.

John T. Ferguson

Mr. Ferguson, a resident of Edmonton, Alberta, has been a director of TransAlta since 1981. He is chairman, chief executive officer and a director of Princeton Developments Ltd. Mr. Ferguson is also chairman and a director of Research Technology Management Inc., and a director of the Royal Bank of Canada and Suncor Inc.

Christopher Hampson

Mr. Hampson, a resident of England, has been a director of TransAlta since 1994. He is chairman of RMC Group plc. Mr. Hampson is former chairman of Yorkshire Electricity Group plc, and a former director of Imperial Chemical Industries plc (ICI).

Charles H. Hantho

Mr. Hantho, a resident of Toronto, Ontario, has been a director of TransAlta since 1992. He is chairman of Dofasco Inc. He is also a director of Inco Limited, Imasco Limited, AGRA Inc. and Camco Inc.

Richard F. Haskayne

Mr. Haskayne, a resident of Calgary, Alberta, has been a director of TransAlta since 1991, and was appointed chair of the board in 1996. He is chairman of NOVA Corporation and MacMillan Bloedel Limited. He is a director of Alberta Energy Company Ltd., Crestar Energy Inc., Fording Coal Limited and the Canadian Imperial Bank of Commerce.

Louis D. Hyndman

Mr. Hyndman, a resident of Edmonton, Alberta, has been a director of TransAlta since 1986. He is a senior partner of the law firm Field Atkinson Perraton. He is a director of BFC Construction Corporation, Canada Trust, IPL Energy Inc., Melcor Developments and Oxford Properties Canada Ltd.

Donna Soble Kaufman

Mrs. Kaufman, a resident of Toronto, Ontario, has been a director of TransAlta since 1989. She is a director of Southam Inc., Bell Canada International Inc., the CRB Foundation and is a governor of the International Development Research Centre.

John S. Lane

Mr. Lane, a resident of Toronto, Ontario, has been a director of TransAlta since 1993. He is senior vice-president, Investments, Sun Life Assurance Company of Canada. Mr. Lane is also a director of Sun Life Assurance Company of Canada (U.S.), Sun Life Trust, Spectrum United Mutual Funds and McLean Budden.

J. Wallace Madill

Mr. Madill, a resident of Calgary, Alberta, has been a director of TransAlta since 1978. He served as chief executive officer of the Alberta Wheat Pool for 20 years and is president of J. Wallace Madill and Associates, and a director of Fording Coal Limited.

Ralph A. Thrall, Jr.

Mr. Thrall, a resident of Lethbridge, Alberta, has been a director of TransAlta since 1981. He is president of the McIntyre Ranching Co. Ltd. Mr. Thrall is also president of the Kainai Chieftainship, and is a member of the Board of Regents of Augustana University College.

Walter Saponja

Mr. Saponja, a resident of Calgary, Alberta, has been a director since 1996. He is president and chief operating officer of TransAlta Utilities. Mr. Saponja is a director of TransAlta New Zealand Limited and the Canadian Electricity Association.

Stephen G. Snyder

Mr. Snyder, a resident of Calgary, Alberta, has been a director since 1996. He is president and chief executive officer of TransAlta Corporation. Mr. Snyder is a member of the board of directors of Spar Aerospace Limited and the Conference Board of Canada. He is also a member of the Business Council on National Issues and the World Business Council for Sustainable Development.

TransAlta Utilities Corporation Officers

Stephen G. Snyder
Chief Executive Officer

Walter Saponja
President & Chief Operating Officer

Ian A. Bourne
Senior Vice-President & Chief Financial Officer

Michael A. Pavey
Senior Vice-President,
Regulatory Planning & Development

J. Ian Bootle
Vice-President, Finance

Patrick Gedge
Vice-President, Sales & Marketing

Wolfgang Janke
Vice-President,
Operational Services

Murray A. Nelson
Vice-President, Transmission & Distribution Operations

Robert J.D. Page
Vice-President, Sustainable Development

John A. Tapics
Vice-President, Generation

Donald W. Boone
Corporate Secretary

Alister Cowan
Director of Finance & Treasurer

Carolyn Dahl Rees
General Counsel

Shareholder INFORMATION

TICKER SYMBOL

TAU for TransAlta Utilities First Preferred Shares
Listed on the Alberta, Toronto and Montreal
stock exchanges

VOTING RIGHTS

Preferred shareholders are entitled to one vote for each full \$100 of subscription price, except for the 7.70% series, which are non-voting unless TransAlta does not pay certain dividends.

SHAREHOLDER INQUIRIES

TransAlta's Registrar and Transfer Agent

CIBC Mellon Trust Company handles inquiries regarding:

- change of address
- stock transfer
- registered share holdings
- dividends and reinvestment plan
- lost certificates
- multiple copies of mailed material

Phone: 1-800-387-0825 toll free in North America or
(416) 813-4600 in Toronto or outside
North America

Fax: (416) 813-4555

Internet: www.cibcmellon.ca

All Other Inquiries and Requests for Information can be Directed to:

Investor Relations
TransAlta Corporation
P.O. Box 1900, Station 'M'
110 - 12th Avenue S.W.
Calgary, AB T2P 2M1

E-mail: Investor_Relations@transalta.com

Phone: 1-800-387-3598 toll free in Canada or
(403) 267-4610 in Calgary or
outside Canada

Fax: (403) 267-2590

Internet: www.transalta.com



The cover and text of this report were printed on paper stock with 50 per cent recycled content including 20 per cent post-consumer fibre.



TransAlta Utilities Corporation